COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. NO. 01-31

REQUEST: Department of Telecommunications and Energy Information Requests to AT&T Communications of New England, Inc.

DATE: November 20, 2001

DTE-ATT 2-1: See p. 13, line 20 through p. 14, line 6: Did the incident described in Mr. Feas testimony, where conditions imposed by the local government forced AT&T to delay its entry into a particular market, occur in Massachusetts? If yes, please provide a detailed narrative of the incident; if no, please state whether and how many similar incidents have occurred in Massachusetts and provide detailed narratives of each incident.

Respondent: A. Fea

RESPONSE: The particular incident to which Mr. Fea was referring in his testimony was that of Colonie, New York, where conditions imposed by the local government caused relocation of planned fiber cable routes to a customer. This case is still in litigation.

AT&T has encountered this type of delay owing to policies imposed by various local governments not only in New York but also in other states, including Massachusetts.

Conditions imposed by local governments, which may be reasonable from the perspective of the public, cause significant delay in the construction of CLEC telecommunications networks. Such delays necessarily give an advantage to the carrier with facilities already in the ground. Two Massachusetts city policies provide good examples:

1. Public Improvement Commission ("PIC") of the City of Boston Policy Relating to Grants of Location for New Conduit Network for the Provision of Commercial Telecommunications Services (attached as Exhibit A), and

2. Cambridge License Commission Pole and Conduit Siting Policy Relating to Grants of Location for Telecommunications

RESPONSE: DTE-ATT 2-1: (cont'd)

Services Networks (attached as Exhibit B).

These policies, while in many ways beneficial to these two cities and their citizens, disproportionately affect CLECs as opposed to Verizon because CLECs need to construct new conduit in order to build their networks while Verizon generally relies upon its already-existing conduit.

The City of Boston PIC Policy provides an example of the often time-consuming and expensive process for any carrier to obtain permission to construct, install and maintain new conduit for use in its networks. In order to obtain a grant of location for new conduit, the Applicant or "lead company" must comply with the following requirements, which typically take from three to six months or longer:

?? Applicant must investigate whether City Conduit is available for the Applicant's use before it may seek permission for its own construction. The PIC Policy requires that all new construction include the construction of parallel City Conduit. The City Conduit must be paid for by the Applicant and other participants in the network construction, and the City will ultimately own and lease the City Conduit once built by the Applicant and participants. Exhibit A, ¶ 12.

?? When it is determined that unused City Conduit exists, the Applicant must prove to the PIC that the Applicant "needs" the number of City Conduit Sections for which grants of locations are sought. Exhibit A, ¶ 13.

?? Application is reviewed by the PIC at a hearing. The PIC Policy sets no time period in which the PIC must hear or act on an application.

?? Within 5 days of PIC preliminary review of an application, the Applicant must notify all companies on file with the PIC, including non-telecommunications utilities such as water and sewer, in order to disclose the specifics of the proposed construction. The Applicant must invite and negotiate with other firms who wish to participate in the construction. Exhibit A, ¶ 7.

?? Applicant and participants must then submit a Coordinated Plan to the PIC with engineering specifications. Exhibit A, ¶ 8.

?? PIC will not issue grants of location until the PIC is satisfied that all interested firms have had the opportunity to place their conduit in all requested locations and have executed the required agreements. Exhibit A, ¶ 8. Again, the Policy places no time limit on the PIC to make this determination.

?? The Applicant has 90 days to begin construction, but may not build during the "winter holiday season" which lasts from November 15 to April 15. Exhibit A, ¶ 9.

The City of Cambridge Policy includes many similar provisions to the City of Boston Policy and includes two particular provisions which have caused Applicants (referred to under Cambridge's Policy as "Network Developers") delay and additional expense in constructing conduit in Cambridge:

1. Section 4.3 and 5.3 require that every Applicant for a grant of location participate in a "process of consultation and mitigation." Exhibit B, §§ 4.3, 5.3. This process includes, among other things, "environmental and health and safety monitoring and mitigation programs; and engineering monitoring and mitigation programs." *Id.*, § 5.3. In the context of the Level Three build in Boston, Cambridge, and Somerville which endeavors to construct a 75,000 foot telecommunications backbone and in which AT&T is a participant, the mitigation requirement of the Cambridge Policy has increased the price of the project and created substantial delay. The Cambridge Commission has required Level Three and the participants in this project to engage in unexpected and costly mitigation, such as planting trees, placing flower pots, moving water mains, constructing sidewalks, installing lighting and laying brick in order to mitigate the construction of new conduit.

2. Sections 3.3 and 3.5 require that Network Developers exhaust unused or vacant existing conduit before applying to the City for a grant of location. Exhibit B, § 3.3. The Network Developer must document all current conduit use and demonstrate the absence of unused capacity. *Id.*, § 3.5. These requirements impose the burden on CLECs to approach Verizon, who typically owns the already-existing conduit, first to request a determination as to whether excess space exists on the Verizon network, and second to request a license to use that excess space on the Verizon network. In order to obtain such a license, CLECs must follow the Verizon procedure outlined in Procedure 9 (attached as Exhibit C). This procedure typically takes approximately 15 months to negotiate and CLECs must pre-pay at each of the many stages in order to obtain the license from Verizon. Thus, the Cambridge policy has the effect of providing Verizon with yet another opportunity to take advantage of its monopoly status to delay or deny the entry of CLECs in a Massachusetts market.

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DTE-ATT 2-2: <u>See</u> p. 6, lines 7-9: Verizon has indicated that AT&Ts proposed market power analysis is impractical and would cause excessive administrative burdens; yet according to Mr. Mayo's testimony, AT&T's proposal is the standard approach to understanding market power. In the absence of a verifiable, bright-line test, what objective standard would you measure the results against?

Respondent: J. Mayo

RESPONSE: While there is no "bright-line test" for determining when a firm is endowed with significant monopoly power there is a standard methodology that is used to provide insight into the ultimate determination regarding a firm's market power. Specifically, the methodology is identified in Dr. Mayo's initial testimony in this case. *See Rebuttal Testimony of John W. Mayo*, D.T.E. 01-31 (August 24, 2001), at 21-26. The methodology has been successfully utilized by both the state and federal regulatory agencies. Consistent with this methodology, specific evidence can be solicited in order to find that a service is effectively competitive. For example, in the state of Maryland, the Public Service Commission will only find that services are "competitive" and hence free from price regulation if the ILEC provides information on a number of factors including:

"a) the breadth of the relevant market;

b) market share characteristics of [the incumbent] in the relevant market

c) available evidence on the ease of entry and exit;

d) factors that facilitate or inhibit the ability of entrants and competitors to expand capacity and capture sales;

RESPONSE:
DTE-ATT 2-2:
(cont'd)

competitors to expand capacity and capture sales;

e) factors that facilitate or inhibit the willingness to switch providers;

f) the price elasticity of demand in the relevant market; and

g) market data on the percent of customers for whom choices are available and the percentage who have availed themselves of choice."

In the Matter of the Inquiry Into Alternative Forms of Regulating Telephone Companies, Order No. 73011, Case No. 8715, (November 8, 1996, at 81- 82. (A copy of pages 1 and 81-84 of the "Order" are attached as Exhibit A.)

The best "objective standard" by which to measure the ultimate evidence is likely to be provided by a consideration of how the market share, fringe firm elasticity, and market demand elasticity evidence compares to those in industries that are widely acknowledged to be effectively competitive. A particular consideration in this case is also the degree to which the firm in question has the ability to control or affect the pricing or quality of its competitors, which is not an option in effectively competitive markets.

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DTE-ATT 2-3: See p. 6 lines 12-24: In his Rebuttal Testimony, Dr. Taylor interpreted Dr. Mayo's count of 68 non-competitive services and Dr. Selwyn's identification of the wire center level as the appropriate market for customer purchasing decisions and has concluded that Dr. Mayo advocates over 18,000 market power studies. Verizon considers such a proposition as excessively burdensome and not feasible in a reasonable time frame. Dr. Mayo indicates that Verizon's conclusion is the result of improperly defined relevant markets. How does AT&T define the relevant markets? What would be the administrative costs and the time frame required to conduct inquiries into the relevant markets as AT&T defines them?

Respondent: J. Mayo

RESPONSE: Verizon has proposed price deregulation for all of its business services in Massachusetts. In response to that proposal, Dr. Mayo has indicated that the merits of the proposed deregulation turn on the presence or absence of significant market power in the relevant market. In that regard, Dr. Mayo points out that in the absence of a properly defined set of markets it is possible, indeed likely, that traditional market power indicators will provide misleading signals regarding the extent of market power. While Dr. Mayo describes the proper market definition methodology (which is not utilized by Verizon), he has not undertaken a complete analysis to identify each of the relevant markets. Nor has Verizon. The administrative costs and time frame required to conduct a properly framed market power analysis of the relevant markets, once identified, are not likely to be burdensome or lengthy. For instance, while the wire center may be an appropriate level of geographic disaggregation of markets, if for a particular relevant service it can be shown that entry and expansion conditions are uniform across all wire centers, then a separate analysis of the elasticity of supply will not be required for every wire center.

RESPONSE: DTE-ATT 2-3: (cont'd)

In fact, as illustrated in DTE-ATT 2-2 above, the Maryland Public Service Commission has developed feasible and effective competitive safeguards to "ensure that [BellAtlantic-Maryland's] conduct is consistent with the growth of competition in the Maryland telecommunications markets." *See* Exhibit A to DTE-ATT 2-2, at 81. The standards set forth in the Maryland Order, repeated below, instruct the ILEC as to the relevant information which must be provided to the Commission in order to categorize any new service as competitive or to reclassify any existing service as competitive. The ILEC must prove:

a) entry into the market for the service is unimpeded by technical or legal constraints;

b) there are economically viable competitors for provision of the service;

c) like or substitutable services are available at rates and terms of service which allows the market to assure that rates for the service will be just and reasonable.

In addition, as listed in the response to DTE-ATT 2-2, the ILEC must provide information on a number of factors:

?? the breadth of the relevant market;

?? market share characteristics of [the incumbent] in the relevant market

?? available evidence on the ease of entry and exit;

?? factors that facilitate or inhibit the ability of entrants and competitors to expand capacity and capture sales;

?? factors that facilitate or inhibit the willingness to switch providers;

?? the price elasticity of demand in the relevant market; and

?? market data on the percent of customers for whom choices are available and the percentage who have availed themselves of choice."

Id., at 82-83.

The Maryland Commission requires the ILEC, whenever it proposes the classification or reclassification of services as competitive, to "indicate the steps that the Company will take to comply with the

RESPONSE:
DTE-ATT 2-3:
(cont'd)

safeguards adopted in this Order." *Id.*, at 83.

The Maryland Commission provides guidance in the definition of a market, specifically finding that "a market may be defined as the entire State, a particular geographic area or a particular subset of customers." *Id.*, at 84. The Commission also states that "[s]ervices may be classified as competitive in one market and as other-than-competitive in another given market." *Id.*

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DTE-ATT 2-4: See p. 14, lines 13-15: According to Mr. Mayo"s testimony, [T]he vertically integrated firm may have incentives to delay, deny, or denigrate the emergence of competition of the retail stage offering. Please explain what ILEC behaviors are contemplated here, and how they may be employed to delay the emergence of competition, deny the emergence of competition, and denigrate the emergence of competition.

Respondent: J. Mayo

RESPONSE: A myriad of potential actions by the incumbent may be utilized to delay the emergence of competition. Indeed, many of the types of behaviors that are contemplated by Dr. Mayo's testimony have already been recognized by the Department, for example, Verizon's poor provisioning of special access circuits. The Department has opened an investigation into Verizon's provisioning of special access circuits based on complaints by CLECs that Verizon "quotes extremely long intervals for provisioning, fails to meet these extended intervals, fails to keep carriers informed of the status of their orders, and has maintenance and repair problems with existing special access." Verizon has an incentive to systematically quote longer intervals for completion of special access circuits for competing carriers than for its retail customers. This will undermine the ability of competitive carriers to acquire the retail customer in the first place. If the competing carrier nevertheless acquires the retail customer, Verizon has an incentive to frustrate the ability of a competing carrier to provision the service by systematically failing to meet due dates for the competing carrier seeking to provide the service. Verizon also has an incentive to discriminate in the quality of the installation, with systematically greater trouble reports shortly after installation for circuits provisioned on behalf of competing carriers. For circuits that have finally been installed properly, Verizon has an incentive to systematically respond more quickly to outage complaints and other maintenance problems made by its own retail customers as compared to

RESPONSE: DTE-ATT 2-4: (cont'd)

such complaints made by competitive carriers on behalf of their retail customers.

Verizon's ability to impede the development of competition also arises from the mere fact that Verizon has been the monopoly provider of local exchange service and any change in a local service provider almost necessarily means a change from Verizon. This gives Verizon control of the schedule and the ease (or difficulty) with which that transition can take place. Something as simple as the refusal of Verizon to effect a transition of service on a weekend, if that is the wish of the customer, can prevent carriers from winning over customers from Verizon. Indeed, just the (not unreasonable) fear of many customers that they may loose service during the transition also raises obstacles to the development of competition. Moreover, Verizon has an incentive to feed those fears, or certainly no disincentive to allay them, if the occasional problem gets publicized.

At a more general level, Verizon has an incentive to challenge the lawfulness of every regulation that could promote parity between the ability of Verizon and the ability of Verizon's competitors to use Verizon's network. For example, ILECs engaged in an extended legal battle to resist a requirement to provide unbundled network elements as a "platform" even though that is the way that Verizon provides service to its own customers and even though it is in many instances the most efficient way for a competing carrier to provide such service. Although lawful for the ILECs to assert the legal challenge and although the ILECs' legal challenge ultimately did not prevail, it certainly delayed if not prevented the development of competition.

There are other examples of monopoly behavior that, although legal, impede the development of competition and preserve an element of monopoly control in Verizon. For example, Verizon refuses to provide its network at economic (TELRIC) prices to competing carriers that want to optimize their networks the same way that Verizon does by commingling long distance and local traffic. This is especially detrimental at a time when Verizon can offer long distance service pursuant to Section 271 of the Telecommunications Act.

Another example that comes to mind is Verizon's restrictions against competing carriers' use of space in Verizon's wire center for connecting with one another unless they also connect with Verizon. The "real estate" of Verizon's wire center is especially valuable in that it is the one sure "meeting place" where a carrier can hope to maximize opportunities to interconnect with other carriers. By requiring all carriers to interconnect with Verizon, even if not necessary, Verizon is extracting a classic "monopoly rent" from its exclusive space. These "rents" drive up the costs of Verizon's competitors and provide a ready source of funds that Verizon can use to recover its fixed, joint and common costs - a source of revenue that competitive carriers operating entirely in competitive markets do not have.

A final, more general example of Verizon's ability to use its control over the public switched network to impede the development of competition arises from its position as "administrator" of the tariff and interconnection agreements under which all other carriers must obtain services from and interconnect with Verizon. It is almost always the competing carrier that seeks the use of something from Verizon, and Verizon can in the first instance decide whether it is required by law or tariff to provide that which is sought. Verizon has the ability to hold up requests from competing carriers pending its own internal review. Such tactics can place enormous pressures on companies dependent upon outside investors who require the prompt execution of business plans and the quick generation of revenue for a return on capital already invested.

As a general proposition, the complexities of interconnection cannot be completely addressed or resolved by government regulation, and the residual advantage necessarily lies with the current owner and controller of the network.

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DTE-ATT 2-5: See p. 14, lines 15-16: According to Mr. Mayo's testimony, both price and non-price means may be available for the vertically integrated firm to protect its monopoly power base. If price floors were maintained for retail services in a deregulated environment where UNE prices are set at economic cost, explain how the ILEC would still be able to engage in predatory pricing or a price squeeze?

Respondent: J. Mayo

RESPONSE: As pointed out in Dr. Mayo's testimonies, a critical predicate for the emergence of effective competition is the establishment of efficient, economic cost-based prices for unbundled network elements (UNEs) which are made available to retail-stage entrants that rely upon the network facilities of Verizon in order to compete. Thus, at the present time the unavailability of dedicated access to retail-stage competitors on a UNE basis and at economic cost is an impediment to the emergence of effective competition in Massachusetts. In this regard, a laudable step by the Department would be to establish an environment where network elements are, in fact, available at economic cost, as assumed in the question.[1]

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[1] I am not a lawyer and cannot say whether the Department has the power to eliminate the Verizon prohibition against comingling which prevents many CLECs from using UNEs and thus prohibits many CLECs from using the network in the way that Verizon does. However, as an economist, I can say that retail markets are not truly competitive as long as comingling remains an efficient course and Verizon maintains such a prohibition. This is especially true now that Verizon has the ability to offer its customers a bundled package of local and long distance services that optimize the use of its network for that dual purpose.

RESPONSE: DTE-ATT 2-5: (cont'd)

If that is done and if a true imputation-based price floor is put into place,[2] it will attenuate, though not entirely eliminate, Verizon's ability to engage in anti-competitive acts. For instance, price floors that are overly broad or aggregated across services may still present opportunities to engage in price squeezes on retail-stage rivals. Moreover, even with a "proper" price floor, non-price discriminatory treatment of retail-stage competitors can still allow a vertically integrated firm with monopoly power in the provision of the upstream service to effectively "squeeze" competitors. Yet another potential difficulty lies in the identification of the "economic cost" itself. Because the relevant cost is that of the incumbent, an informational asymmetry is likely to be present. Specifically, the incumbent supplier is likely to have superior knowledge relative to the regulatory body regarding the magnitude of these costs. In such a situation, the incumbent can render the imputation price floor ineffective by underestimating the magnitude of the retail-stage economic costs.

(continued...)

[2] It is my understanding that Verizon's price deregulation proposal calls for the continuation of the Department's current price floor standard. If that price floor standard does not require Verizon to impute into its retail price the prices it charges its competitors for UNEs, then it will not prevent a price squeeze even if UNEs were available to CLECs at economic cost.

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DTE-ATT 2-6: See p. 15, lines 5-7: According to Mr. Mayo's testimony, consequently, the Department must engage in an inquiry to assure itself that, in the post-reintegration world, Verizon is continuing to act in a non-discriminatory fashion toward its retail-stage competitors. Are Mr. Mayo's concerns addressed by the Performance Assurance Plan (PAP)? If not, why not? Is Mr. Mayo suggesting that the Department needs to amend the PAP? If so, in what ways does Mr. Mayo recommend that the PAP be amended or modified?

Respondent: J. Mayo

RESPONSE: There are several reasons why the Performance Assurance Plan is unlikely to fully resolve Dr. Mayo's concerns regarding potential discrimination by Verizon in the post-reintegration world and why, in light of these considerations, the PAP cannot be relied upon with confidence at the present juncture to assure the absence of discriminatory conduct by Verizon toward its retail-stage competitors.

Described below are some of the reasons why the PAP will not adequately curtail the incentives Verizon has to sabotage the emergence of effective competition.

PAP's Failure to Measure Special Access Services

The PAP does not measure Verizon's provision of special access, the services upon which many CLECs rely to provide local exchange business services in Massachusetts. For the reasons set forth in the Rebuttal and Surrebuttal Testimonies of Deborah S. Waldbaum, CLECs

RESPONSE:
DTE-ATT 2-6:
(cont'd)

cannot use UNEs and, therefore, rely on special access services from Verizon for connectivity to the end user.[1] Because the PAP does not measure Verizon's provisioning of services upon which many CLECs rely to compete with Verizon, namely special access services, the PAP does not ensure that Verizon acts in a nondiscriminatory fashion towards its retail-stage competitors.

Inadequate Monetary Incentives of the PAP

Even assuming Verizon's retail stage competitors can obtain UNEs, I cannot say – and I do not think that anyone can authoritatively say on the basis of the limited experience we currently have – that the PAP will ensure that Verizon does not engage in nondiscriminatory conduct. It is my understanding that the penalty amounts in the PAP were not determined on the basis of an empirical analysis that would reveal the levels of penalties necessary to deter discriminatory conduct. We will not know for some time whether the penalty amounts are sufficient for that purpose. Moreover, the complex structure of the plan makes it unclear whether Verizon is – as a practical matter – truly exposed to the penalty amounts nominally appearing in the PAP.

Because the PAP sets an annual "maximum amount at risk" which is diced into many smaller discrete pieces, the likely actual monthly payment or credit obligations of Verizon are trivial in light of the size of the Massachusetts markets at stake. These "caps within caps" are likely to effectively make the annual total an illusion, rather than a realistic possibility, because Verizon must provide performance at the worst level in all categories every month in order to attain the maximum. It is impossible for Verizon to reach the annual cap unless all of the twelve monthly caps are met, and each of the dozens of individual monthly limits within each monthly cap is also met. In addition, none of these subcategory caps can even be reached unless Verizon's performance is extremely poor *for the CLEC industry as a whole,* as opposed to performance that is only poor for some of the CLECs. This means that Verizon could potentially single out one or two CLECs for treatment so bad that those CLECs are unable to stay in business and Verizon can still avoid paying any penalties under the PAP. Thus, through the use of caps within caps, the PAP's disaggregation of the maximum amount at risk allows Verizon's failures in some areas to be covered up by merely adequate performance in other areas.

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[1] *Rebuttal Testimony of Deborah S. Waldbaum*, D.T.E. 01-31 (August 24, 2001), at 6-15; *Surrebuttal of Deborah S. Waldbaum*, D.T.E. 01-31 (November 1, 2001), at 2-4.

RESPONSE:
DTE-ATT 2-6:
(cont'd)

In addition, this framework of caps limits Verizon's liability so severely that any resulting payments will only be considered by Verizon as a cost of doing business to maintain its monopoly power in Massachusetts. As a result, there is no incentive for Verizon to track wholesale problems, nor enable policy-makers or Verizon management to detect patterns of problems.

PAP Allows Verizon to Delay in Payment of Penalty

The potential for discouraging anti-competitive behavior is further undermined by the PAP's use of "credits" rather than penalty payments. The PAP allows Verizon to pay bill credits instead of cash payments. This creates a time divide between the time of the poor performance and the time of the payment of penalties for that performance. These delays impact CLECs, particularly smaller CLECs who may have severe cash flow problems due to poor Verizon performance. If Verizon provides discriminatory service that harms a CLEC's customer, the CLEC must immediately provide a credit to that customer. If the CLEC does not then receive a credit from Verizon for several months, the CLEC is faced with an obvious cash flow problem. The use of bill credits coupled with the manner in which Verizon allocates the aggregate amount of the credit among CLECs on the basis of lines in service severely disadvantages CLECs who are attempting to enter the market but do not yet have a substantial portion of the total lines in service—the very CLECs who are most likely to be injured by poor performance on the part of the ILEC. These delays substantially dilute the protection that the PAP offers to CLECs and consumers and clearly harm the potential for competition in an open market.

In fact, in response to this problem, the Staff of the New Hampshire Public Utilities Commission recommends that penalties be distributed by Verizon New Hampshire in cash rather than in billing credits. The Staff believes that "cash penalties are more effective than billing credits and also contribute to the diminution of the 'pay to play' outlook. Billing credits, while they may be lost revenue which eventually affects the bottom-line of Verizon New Hampshire, are too

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(continued...)

[2] *New Hampshire Public Utilities Commission Staff Comments Regarding Post-271 Performance Compliance Plans*, DT 01-006 (October 30, 2001), at 11-12.

RESPONSE: DTE-ATT 2-6: (cont'd)

indirect and dilute the impact of the financial consequences for discriminatory behavior." [2]

Complexity of the PAP

In addition to the inadequacy of the monetary incentives provided in the PAP and the failure of the PAP to measure special access services, the extreme complexity of the plan may preclude it from being an effective deterrent to anti-competitive behavior because the PAP makes it substantially less certain that the appropriate level of consequences will be applied. The complexity of the PAP may be used by Verizon to mask discriminatory behavior and render it unlikely that Verizon will ever be subject to significant consequences for poor performance. The PAP's complexity also makes it very difficult to monitor and enforce, thereby requiring a substantial investment of resources and time on the part of the Department.

In light of the foregoing considerations, the PAP may very well need to be amended. At a minimum, however, the PAP is simply so nascent that it cannot reliably be used as a sufficient regulatory tool to assure the absence of non-price discrimination for deregulated business services. Further evaluation of the effectiveness of the PAP must be conducted and, until that is accomplished, the PAP cannot be relied upon to curtail potential discrimination and anti-competitive behavior by Verizon.

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DTE-ATT 2-7: See p. 16, line 22 through p. 17, line 5: Please provide all documents and sources relied upon in support of Mr. Mayo's statement that there is some indication that the success of new entrants into the local exchange arena is driven by a desire by business customers to create redundancies (not previously provided) in their telecommunications systems. Thus, while such customers may view CLECs [sic] as viable providers of redundancies for their existing telecommunications demands, these customers are less willing to view CLECs as viable replacements for Verizon's services.

Respondent: J. Mayo

RESPONSE: Dr. Mayo's statement is supported by extensive discussions with AT&T sales representatives who have long experience in marketing and selling AT&T's voice and data services to business customers. These discussions revealed that one factor considered by customers is whether the customer is obtaining service on a different network from Verizon, or is obtaining services that do not depend upon Verizon facilities. In this way, a customer ensures that if its Verizon service fails, an identical alternative service from another carrier is in place so that the customer can continue day-to-day business operations.

As explained by AT&T sales representatives, customer desire for diversity in providers is prevalent. The customer is often not necessarily seeking a replacement for its voice or data service as provided by Verizon; rather, the customer desires service from an alternative carrier in order to create redundancy. The customer would not order the same "extra line" from Verizon because the customer's sole purpose in ordering the additional line from the CLEC is to avoid absolute reliance on one carrier, Verizon. At least three considerations suggest that the consequence of this customer preference for redundancy is a reduction in the competitive discipline imposed on Verizon: (1) in many situations

RESPONSE: DTE-ATT 2-7: (cont'd)	CLECs cannot offer a service provided exclusively over their own facilities and thus do not offer a competitive alternative to Verizon; (2) Verizon is not actually losing a customer to a CLEC; and (3) Verizon is not even losing the sale of an additional line, because the customer is interested in a second carrier, not a "second line."